



**Prescription Drugs Are More Expensive in Rep. Tierney's Congressional
District than in Canada, Europe, and Japan**

Prepared for Rep. John F. Tierney

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Table of Contents

Executive Summaryi

I. Introduction1

- A. The High Cost of Prescription Drugs for Seniors1
- B. Prescription Drug Price Discrimination2
- C. Purpose of This Report 3

II. Methodology4

- A. Selection of Drugs4
- B. Determination of Prices in Rep. Tierney's District5
- C. Determination of Prices in Canada, Europe, and Japan 5
- D. Selection of Drug Dosage 6

III. Findings6

- A. Seniors in Rep. Tierney's District Pay Far More for Prescription Drugs than Purchasers in Other Countries6
- B. For Some Drugs, Seniors in Rep. Tierney's District Pay Three Times the Price Paid by Purchasers in Other Countries7
- C. Price Differentials Are Substantial in Dollar Terms8

IV. Conclusion10

Appendix 1: Prices of Individual Drugs in Rep. Tierney's District, and in Canada, Europe, and Japan11

EXECUTIVE SUMMARY

The high cost of prescription drugs poses a severe financial hardship for millions of senior citizens in the United States. Because Medicare does not cover the cost of prescription drugs, seniors must often spend thousands of dollars on prescription drugs each year, forcing many to skip the medications they need. To make matters worse, spending on prescription drugs by Medicare recipients is expected to more than double over the next six years.

One of the root causes of high drug prices is price discrimination by drug manufacturers. The United States is the only developed country that does not protect its consumers from drug price discrimination. As a result, prescription drug prices for seniors without drug coverage in the United States far exceed the prices charged in other developed nations.

Rep. John F. Tierney asked the Special Investigations Division of the minority staff of the Committee on Government Reform to quantify the extent of this price discrimination in his congressional district. This report presents the results of the investigation. The report compares the prices paid by seniors in Rep. Tierney's district for the five most popular brand-name prescription drugs used by seniors with the prices paid by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom for the same drugs.

The report finds:

Seniors in Rep. Tierney's district pay far more for prescription drugs than purchasers in other countries. Seniors in Rep. Tierney's district who lack drug coverage must pay, on average, more than twice as much for the five most popular drugs as purchasers in foreign countries. The prices for the five drugs for uninsured seniors in Rep. Tierney's district are 163% higher than in France, 135% higher than in Canada, 132% higher than in the United Kingdom, and 109% higher than prices in Italy.

For some drugs, seniors in Rep. Tierney's district pay three times the price paid by purchasers in other countries. Prevacid is an ulcer medication manufactured by Tap Pharmaceuticals. A monthly supply of this drug costs only \$45.02 in the United Kingdom, but a senior in Rep. Tierney's congressional district without drug coverage must pay \$134.95, three times as much. Similarly, a monthly supply of Celebrex, an arthritis medication made by Pfizer, costs only \$30.60 in France, compared to \$85.87 in Rep. Tierney's congressional district, over two-and-a-half times as much.

Price differentials are substantial in dollar terms. All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, seniors in Rep. Tierney's congressional district must spend hundreds of dollars more each year than foreign purchasers for each of the five drugs. An uninsured senior in Rep.

Tierney's congressional district will spend almost \$1,100 more than a purchaser in the United Kingdom for a one-year prescription of Prevacid, over \$1,000 more than a purchaser in France for a one-year prescription of Prilosec, and over \$750 more than a purchaser in Canada for a one-year prescription of Zocor.

I. INTRODUCTION

A. The High Cost of Prescription Drugs for Seniors

The high cost of prescription drugs causes severe problems for millions of senior citizens in the United States. Because they suffer from more health problems, seniors use more prescription drugs than other age groups. According to the most recent estimates from the Congressional Budget Office (CBO), Medicare beneficiaries will spend a total of over \$86 billion on prescription drugs in 2002, accounting for over 40% of U.S. drug spending.¹ This year, the average senior is expected to use over \$2,000 worth of prescription drugs, and almost one in ten seniors is expected to use over \$5,000 worth of prescription drugs.²

These expenditures are increasing rapidly. CBO estimates that prescription drug spending by Medicare beneficiaries will increase by over 13% in 2002 and more than double within the next six years.³ Much of this increased spending is driven by drug price inflation, which in recent years has increased at over twice the overall inflation rate.⁴

Rising drug prices and heavy spending on prescription drugs cause hardships for seniors because Medicare does not cover most prescription drug expenditures, and many seniors have no other coverage. The most recent data indicate that almost 40% of seniors -- an estimated 11 million seniors -- have no drug coverage.⁵ Problems are particularly acute for low-income seniors, seniors over the age of 85, and seniors in rural areas, all of whom are more likely to be without drug coverage.⁶

Even when seniors have prescription drug coverage, the coverage is often inadequate. In previous years, many seniors have

¹Congressional Budget Office, *Spending on Prescription Drugs By or For Medicare Enrollees, March 2002 Baseline Projections* (March 2002).

²*Id.*

³*Id.*

⁴Families USA, *Enough to Make You Sick: Prescription Drug Prices for the Elderly* (July 2001).

⁵Mary A. Laschober et al., *Trends in Medicare Supplemental Insurance and Prescription Drug Coverage, 1996 - 1999*, Health Affairs (Feb. 27, 2002).

⁶*Id.*

counted on Medicare managed care plans or Medigap plans. But the costs of Medigap plans are rising rapidly, and the drug coverage they offer is often inadequate.⁷ Medicare managed care plans are also sharply reducing benefits and coverage. In the last two years, these plans have dropped coverage for almost two million seniors,⁸ and analysts have found that they offer few significant benefits to seniors who are covered.⁹ Even retirees with employer-sponsored prescription drug coverage are facing decreased benefits and are being forced to pay an increasing share of drug costs.¹⁰

The high cost of prescription drugs and the lack of prescription drug coverage cause enormous hardships for older Americans, often leaving them unable to afford the drugs they need. One recent survey found that almost one in ten seniors was forced to skip necessary medications because of their high cost.¹¹

B. Prescription Drug Price Discrimination

One of the principal causes of the high cost of prescription drugs for seniors is price discrimination by drug manufacturers. In the United States, drug manufacturers are not prevented from charging higher prices for drugs intended for use by uninsured consumers, such as seniors on Medicare, than for other purchasers who have market power. As CBO reported, "[d]ifferent buyers pay different prices for brand-name prescription drugs. . . . In today's market for outpatient prescription drugs, purchasers that have no insurance coverage for drugs . . . pay the highest prices for brand-name drugs."¹² The Federal Trade Commission has reached the same conclusion, reporting that drug manufacturers use a "two-tiered pricing structure" under which they "charge higher prices to . . . the

⁷See Families USA, *Failing America's Seniors: Private Health Plans Provide Inadequate Drug Coverage* (May 2002). For example, the cost of Medigap plans offering prescription drug coverage increased by an average of 37% between 1998 and 2000. Laschober et al., *supra* note 5.

⁸Laschober et al., *supra* note 5.

⁹Families USA, *supra* note 7.

¹⁰Henry J. Kaiser Foundation, *Erosion of Private Health Insurance Coverage of Retirees* (Apr. 2002).

¹¹Dana Safran et al., *Drug Coverage and Out-of-Pocket Spending Among Medicare Beneficiaries: What is Changing in the Face of the Current Market Frenzy*, Institute for Medicare Practice (May 2000).

¹²Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998) (emphasis added).

uninsured."¹³

In other industrialized countries, purchasers are protected from manufacturer price discrimination. Different countries use a variety of approaches to ensure that purchasers are protected from high prices. For example:

In Canada, the country's Patented Medicine Prices Review Board requires that the prices of new brand-name drugs not exceed the average price of the same drugs in seven other industrialized countries.¹⁴

In Italy, the government uses a similar approach, refusing to reimburse manufacturers for a drug if its price exceeds a 12 country European average price.¹⁵

In France, Germany, and Japan, maximum prices for each drug are based on the therapeutic value of the drug.¹⁶ Prices for new drugs are determined by comparing them with similar drugs that are already on the market. Prices are based upon the safety and effectiveness of the drug; drugs that are shown to be safer or more effective than existing drugs are priced higher.

In the United Kingdom, drug companies are free to establish their own prices on individual drugs. However, under the country's pharmaceutical laws, the maximum profit that drug manufacturers can earn on sales in the United Kingdom is limited to 17%.¹⁷

¹³Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (March 1999).

¹⁴See Patented Medicine Prices Review Board, *Eleventh Annual Report for the Year Ending December 31, 1998* (1999).

¹⁵See Health Policy, *The New Pharmaceutical Policy in Italy* 46, 21-41 (1998).

¹⁶See Congressional Research Service, *Determination of Prescription Drug Prices in France, the United Kingdom, and Italy* (Sept. 11, 2000); United States International Trade Commission, *Pricing of Prescription Drugs*, Investigation No. 332-419, Publication 3333 (December 2000); Boston Consulting Group, *Ensuring Cost-Effective Access to Innovative Pharmaceuticals: Do Market Interventions Work?* (April 1999).

¹⁷United States International Trade Commission, *supra* note 16.

While the methods used by these countries vary, the results are the same: purchasers are protected from price discrimination and therefore pay significantly less for prescription drugs than uninsured consumers in the United States.

C. Purpose of This Report

To assess the impact of prescription drug price discrimination on seniors in his district, Rep. John F. Tierney asked the Special Investigations Division of the minority staff of the Government Reform Committee to conduct an international comparison of the prices of prescription drugs frequently used by seniors. Specifically, Rep. Tierney requested that the Special Investigations Division compare the prices paid for popular brand-name prescription drugs by uninsured seniors in his congressional district with the prices paid by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom for the same drugs. This report presents the results of the investigation.

II. METHODOLOGY

A. Selection of Drugs

The drugs examined in this report are the five brand-name prescription drugs with the highest annual sales to seniors in 2000. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest out-patient prescription drug program for older Americans in the United States for which claims data is available.¹⁸ PACE data is used in this study, as well as by several other analysts, as an indicator of prescription drug usage by all older Americans. Over 200,000 seniors are enrolled in the program, which provided over \$200 million of assistance in filling over four million prescriptions annually.¹⁹

Based on the PACE data, the five prescription drugs with the highest sales to seniors in 2000 are:

¹⁸ Pharmaceutical Assistance Contract for the Elderly, Pennsylvania Department of Aging, *Top 50 NDCs By Expenditure and Claims Volume For Period January 1 - December 31, 2000* (Mar. 16, 2001).

¹⁹ Pharmaceutical Assistance Contract for the Elderly, Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly, January 1999 - December 1999* (2000).

- * Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck;
- * Prevacid, an ulcer and heartburn medication manufactured by TAP Pharmaceuticals;
- * Celebrex, an arthritis medication manufactured by Pharmacia and Upjohn;
- * Zocor, a cholesterol-reducing medication manufactured by Merck; and
- * Lipitor, a cholesterol medication manufactured by Pfizer.

B. Determination of Prices in Rep. Tierney's District

In order to determine the prices that senior citizens are paying for prescription drugs in Rep. Tierney's congressional district, the Special Investigations Division and the staff of Rep. Tierney's congressional office conducted a survey of nine drug stores, including both independent and chain stores. Rep. Tierney represents the 6th Congressional District, on the north shore of Massachusetts. The district includes the cities of Lynn, Haverhill, and Peabody. Average drug prices in the district were estimated by averaging the prices obtained from the surveyed drug stores.

C. Determination of Prices in Canada, Europe, and Japan

Prices for prescription drugs in Canada, Europe, and Japan were determined via a survey of pharmacies in six countries: Canada, France, Germany, Italy, Japan, and the United Kingdom. At the request of the Special Investigations Division, pricing surveys were conducted by the Office of NAFTA and Inter-American Affairs and the Office of the Foreign Commercial Service of the U.S. Department of Commerce in May 2002. All prices were obtained in local currency and converted to U.S. dollars using commercially available exchange rates in effect at the time of the survey.

None of the prices used in this report include any government contribution or subsidy. In Canada, provincial governments pay the cost of prescription drugs for children, the elderly, and the indigent. Some provincial governments pay for the cost of prescription

drugs for other residents, while other provincial governments do not. Citizens who do not receive drug coverage from a provincial government must either pay for their own prescription drugs or obtain additional coverage, generally through their employer. The Canadian prices in this report are the retail prices paid by consumers with no drug coverage.

France, Italy, Japan, Germany, and the United Kingdom all provide universal prescription drug coverage for their citizens. Under these systems, pharmacists pay the wholesale price of the drug and add an appropriate retail markup for each prescription sold. If the drug is reimbursed by the country's health insurance plan, the pharmacist receives payment for the wholesale price of the prescription drug and the retail markup from the insurance plan. If the drug is not reimbursed, the consumer must pay the full retail cost, including the wholesale cost plus the pharmacy markup. For these countries, the prices presented in this report are the prices that would be paid by a consumer whose purchase is not covered by the government health insurance plan.²⁰

D. Selection of Drug Dosage

Prices were obtained for a monthly supply of each of the drugs. Zocor is generally taken twice daily, and 60 tablets represent a monthly supply. Prilosec, Prevacid, Celebrex, and Lipitor are generally taken once a day, and 30 tablets represent a monthly supply. For these drugs, the most popular forms and dosages were chosen based on information provided by the PACE program. The dosages, forms, and package sizes used in the study are shown in Table 1.

In Canada and Germany, all five drugs were available in the same dosage as in the United States. In Japan, Celebrex was not available, but the other four prescription drugs surveyed in this report were available in the same dosage as in the United States. Zocor was available in France, Italy, and the United Kingdom, but not in the 5 mg dosage most commonly used by U.S. seniors. In these cases, the price for the 10 mg or 20 mg dosage of the drug was included in the price comparison.

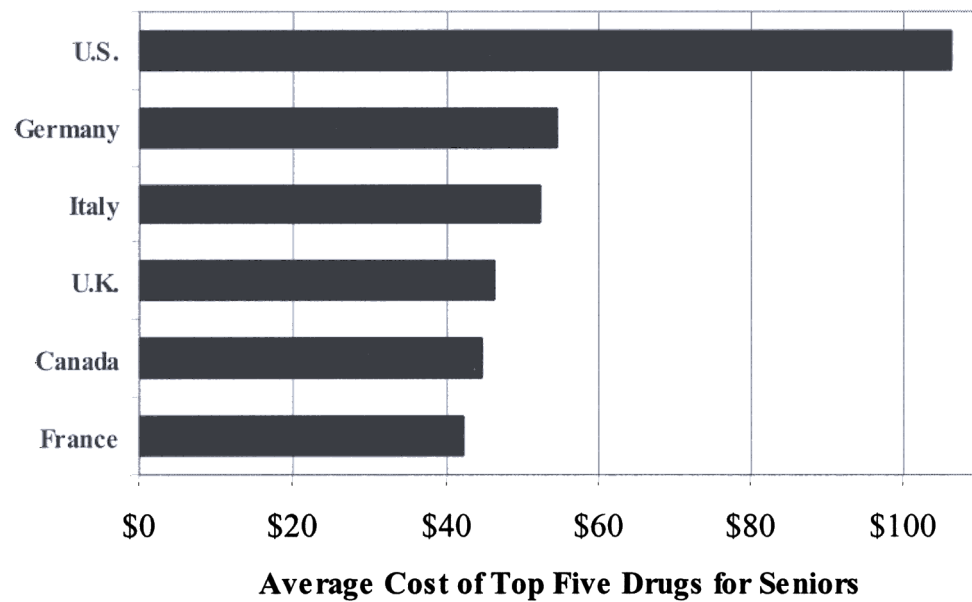
III. FINDINGS

²⁰ Although most prescription drug transactions in these countries are covered by government health insurance plans, there are a number of different types of transactions where consumers must pay the full retail costs. These include cases where noncitizens purchase drugs and cases where citizens are prescribed drugs that for a number of reasons may not be reimbursed by government insurance plans.

A. Seniors in Rep. Tierney's District Pay Far More for Prescription Drugs Than Purchasers in Other Countries

Prescription drug prices are substantially higher for uninsured seniors in Rep. Tierney's congressional district than in Canada, France, Germany, Italy, Japan, and the United Kingdom. In Rep. Tierney's congressional district, the average price for a one-month supply of the five most popular drugs for seniors is \$106.12. This is more than twice as much as the average price in the six foreign countries surveyed, \$49.79. Overall, the average price in Rep. Tierney's congressional district for the five most popular drugs for seniors is 116% higher than the average price of the drugs in Canada, Europe, and Japan. Drug prices for uninsured seniors in Rep. Tierney's district are 163% higher than in France, 135% higher than in Canada, 132% higher than in the United Kingdom, and 109% higher than in Italy. See Figure 1.

**Figure 1: Uninsured Seniors in Rep. Tierney's District Pay
Higher Drug Prices Than Purchasers in Other Countries**



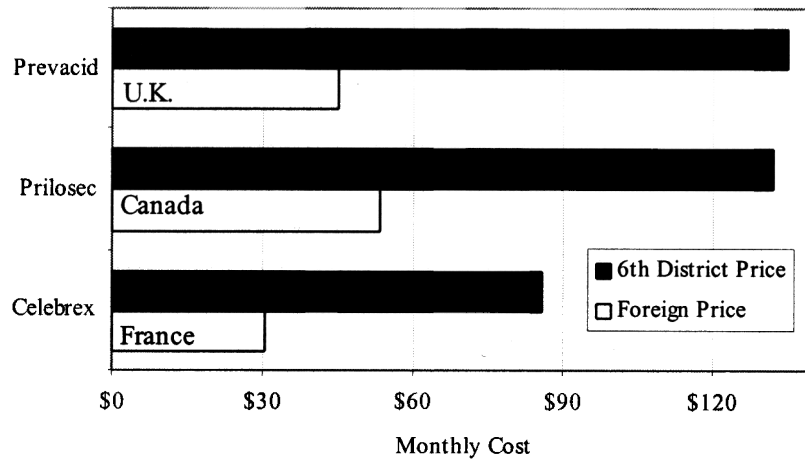
B. For Some Drugs, Seniors in Rep. Tierney's District Pay Three Times the Price Paid by Purchasers in Other Countries

Prevacid, an ulcer medication made by TAP Pharmaceuticals, was the second most popular drug used by seniors in 2000. A monthly supply of this drug costs \$134.95 in Rep. Tierney's congressional district. In the United Kingdom, a monthly supply of Prevacid costs only \$45.02. This is a price differential of 200%. Seniors in Rep. Tierney's congressional district without drug coverage must pay three times as much for Prevacid as purchasers in the United Kingdom.

Celebrex is the popular arthritis medication made by Pharmacia and Upjohn. A monthly supply of this drug costs \$85.87 in Rep. Tierney's congressional district. In France, a monthly supply of Celebrex costs only \$30.60. This is a price differential of 181%. Seniors in Rep. Tierney's congressional district without drug coverage must pay over two and a half times as much as purchasers in France.

Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck, was the most popular drug for U.S. seniors in 2000. A monthly supply of this drug costs \$131.93 in Rep. Tierney's congressional district, but costs a purchaser in Canada only \$53.17. This is a price differential of 148%. See Figure 2.

Figure 2: Prescription Drugs Cost Purchasers in Rep. Tierney's District Far More Than Purchasers in Foreign Countries



Overall, uninsured seniors in Rep. Tierney’s district pay 144% more for Prevacid, 140% more for Celebrex, 132% more for Prilosec, 98% more for Lipitor, and 65% more for Zocor than an average purchaser in Canada, Europe, or Japan. The prices of the five drugs in Rep. Tierney’s congressional district and the average prices in the six foreign countries can be seen in Table 1.

Table 1: Uninsured Seniors in Rep. Tierney’s Congressional District Pay Higher Prices for Prescription Drugs Than Purchasers in Other Countries.

Drug	Manufacturer	Quantity	Avg. Foreign Price (Monthly Supply)	6th District Price (Monthly Supply)	Price Differential	
					Dollar	Percent
Celebrex	Pharmacia and Upjohn	200 mg, 30 tab.	\$35.79	\$85.87	\$50.08	140%
Prevacid	TAP Pharmaceuticals	30 mg, 30 tab.	\$55.41	\$134.95	\$79.54	144%
Prilosec	Astra/Merck	20 mg, 30 tab.	\$56.89	\$131.93	\$75.04	132%
Lipitor	Merck	10 mg, 30 tab	\$35.18	\$69.73	\$34.55	98%
Zocor	Pfizer	5 mg, 60 tab.	\$65.68	\$108.13	\$42.45	65%
Average					116%	

C. Price Differentials Are Substantial in Dollar Terms

The differences in drug prices for uninsured seniors in Rep. Tierney’s congressional district and foreign purchasers can translate into large dollar differences. All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, on an annual basis, seniors in Rep. Tierney’s congressional district will spend hundreds of dollars more than foreign purchasers for each of the five drugs.

A one-month supply of Prevacid costs an uninsured senior in Rep. Tierney’s congressional district \$134.95. This same amount of Prevacid would cost only \$45.02 in the United Kingdom, a price difference of \$89.93 per month. This means that for a year of

treatment with Prevacid, an uninsured senior in Rep. Tierney's congressional district will spend almost \$1,100 more than a purchaser in the United Kingdom.

A monthly prescription for the ulcer medication Prilosec costs an uninsured senior in Rep. Tierney's congressional district \$131.93 per month. This same amount of Prilosec would cost only \$47.40 in France, a price difference of \$84.53 per month. For a year of treatment with Prilosec, an uninsured senior in Rep. Tierney's congressional district will spend over \$1,000 more than a purchaser in France. Similarly, a one-month supply of Zocor costs an uninsured senior in Rep. Tierney's congressional district \$108.13, compared to only \$45.30 in Canada, a price difference of \$62.83 per month. For a year of treatment with Zocor, an uninsured senior in Rep. Tierney's congressional district will spend over \$750 more than a purchaser in Canada.

Figure 3 shows how much more an uninsured senior in Rep. Tierney's congressional district must pay each year for each of the five drugs compared to the prices paid by a purchaser in the foreign country with the lowest prices.

**Figure 3: Drug Manufacturer Price Discrimination Imposes
Substantial Costs on Seniors in Rep. Tierney's District**



V. CONCLUSION

This report analyzes the prices of the five most popular drugs for seniors and finds that uninsured seniors in Rep. Tierney's congressional district pay significantly more for these prescription drugs than purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. While purchasers in these other countries are protected from price discrimination by drug manufacturers, uninsured seniors in Rep. Tierney's district have no such protection. As a result, drug manufacturers charge low prices for prescription drugs in other countries, but high prices for the same drugs in Rep. Tierney's congressional district. These price differentials result in seniors in Rep. Tierney's district paying hundreds of dollars more annually for each of the five drugs than purchasers in foreign countries.

**Appendix 1: Prices of Individual Drugs in Rep. Tierney's District, and in
Canada, Europe, and Japan**

Drug	Quantity, Dosage	6th District Price	Canadian Price	French Price	German Price	Italian Price	Japanese Price	U.K. Price	Average Foreign Price
Prevacid	30 mg, 30 tab.	\$134.95	\$49.29	\$46.50	\$66.90	\$56.70	\$68.05	\$45.02	\$55.41
Celebre	200 mg, 30 tab.	\$85.87	\$34.33	\$30.60	\$43.20	\$36.00	Not Avail.	\$34.82	\$35.79
Prilosec	20 mg, 30 tab.	\$131.93	\$53.17	\$47.40	\$66.90	\$61.80	\$59.55	\$52.52	\$56.89
Lipitor	10 mg, 30 tab.	\$69.73	\$41.84	\$23.70	\$34.80	\$33.60	\$40.84	\$36.32	\$35.18
Zocor	5 mg, 60 tab.	\$108.13	\$45.30	\$63.60**	\$60.60	\$74.40*	\$86.27	63.92*	\$65.68

* This represents the price for 60 10 mg. tablets of Zocor.

**This represents the price for 60 20 mg. tablets of Zocor.